PERAC AUDIT REPORT

Beverly Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2005

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

February 16, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Beverly Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. **Membership:**

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over $30,000 and were hired after January 1, 1979. It was observed that members are issued separate checks for longevity allowances. For that pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll system is not combining the total earnings in a pay period for calculating the 2% deduction. Further audit observations disclosed school cafeteria workers who were incorrectly contributing the additional 2% deduction. In addition, a library employee began employment September 1, 2005 yet had never contributed any retirement withholding on an annual salary of approximately $41,000.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over $30,000 on a per pay-period basis. The payroll system must combine all earnings subject to retirement deductions for each member from all payroll sources. This would provide the proper basis for calculating the additional 2% deduction accurately and consistently. Furthermore the Board must make the proper reimbursements to the aforementioned cafeteria employees and collect the under-withheld deductions from the library employee whose retirement deductions were never initiated.

Board Response:

We have taken the necessary steps to correct the condition on checks for longevity allowances and have begun withholding 2% retirement deductions on total regular income over $30,000 on a per pay-period basis.

2. **Board Member Attendance:**

A review of meeting attendance by Board members revealed a significant level of absenteeism. Two members missed 40% and 30% respectively of meetings held in 2004; while, in 2005, one member missed 33% of the meetings. In 2006, three members missed more than 25% of the meetings held, although one member had a serious health issue that precluded her participation. Two meetings had to be cancelled due to a lack of a quorum. Of the thirty-three meetings held between January 2004 and December 2006, the full Board was present at only seven of those meetings, or 21% of the time. The result is an attendance rate for several Board members that was well below the seventy-five percent minimum considered reasonable for each of the three years evaluated. Such a level of absenteeism is considered to be excessive.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The stipend for Board members should be contingent upon regular attendance and participation at the monthly Board meetings. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

With respect to meeting attendance, we adopted the following attendance guidelines at our meeting held on April 27, 2007:

- Members are strongly encouraged to attend all meetings during the Fiscal year, July 1 through June 30.
- After missing three meetings in a year, a member's stipend with be withheld upon missing the fourth meeting.
- Members with extenuating circumstances, such as illness, etc., will be reviewed on a case by case basis.

Audit Observation: During the audit period, it was observed that a brokerage commission recapture arrangement was in effect with the retirement system's consultant. This resulted in quarterly consulting fees being offset by as much as 50% by the income resulting from this commission recapture program. Some distortion in reporting financial results occurred primarily by understating both consulting fees and the investment income that should have been reported as commissions recaptured. According to the Board administrator, this arrangement was discontinued in 2005. Currently, PERAC's investment unit is reviewing the commission recapture contract arrangement between the pension consultant and the brokers.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2005	2004
Net Assets Available For Benefits:		
Cash	$2,914,995	$2,228,940
Short Term Investments	0	0
Fixed Income Securities	17,913,750	17,513,024
Equities	23,862,757	23,992,373
Pooled International Equity Funds	9,004,836	7,767,476
Pooled Global Fixed Income Funds	5,208,596	6,502,923
Pooled Domestic Balanced Funds	15,038,628	13,984,087
Interest Due and Accrued	192,559	183,285
Accounts Receivable	2,115,154	1,676,697
Accounts Payable	0	(663,924)
Total	$76,251,275	$73,184,881
Fund Balances:		
Annuity Savings Fund	$17,857,036	$17,621,576
Annuity Reserve Fund	9,085,489	8,564,619
Pension Fund	1,648,720	2,735,314
Military Service Fund	13,665	6,142
Expense Fund	0	0
Pension Reserve Fund	47,646,365	44,257,230
Total	$76,251,275	$73,184,881

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	16,543,565	8,845,157	4,252,890	2,813	0	37,109,159	66,753,583
Receipts	1,916,380	258,393	5,971,522	3,329	505,753	7,148,071	15,803,449
Inter Fund Transfers	(504,821)	504,821	0	0	0	0	0
Disbursements	(333,548)	(1,043,753)	(7,489,098)	0	(505,753)	0	(9,372,151)
Ending Balance (2004)	17,621,576	8,564,619	2,735,314	6,142	0	44,257,230	73,184,881
Receipts	2,014,635	257,572	6,700,696	7,522	545,051	3,389,135	12,914,611
Inter Fund Transfers	(1,364,716)	1,364,716	0	0	0	0	0
Disbursements	(414,458)	(1,101,419)	(7,787,289)	0	(545,051)	0	(9,848,217)
Ending Balance (2005)	$17,857,036	$9,085,489	$1,648,720	$13,665	$0	$47,646,365	$76,251,275

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2005	2004
Annuity Savings Fund:		
Members Deductions	$1,820,130	$1,717,574
Transfers from Other Systems	38,721	68,874
Member Make Up Payments and Re-deposits	24,704	18,041
Member Payments from Rollovers	19,126	15,194
Investment Income Credited to Member Accounts	111,954	96,698
Sub Total	2,014,635	1,916,380
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	257,572	258,393
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	101,491	93,705
Received from Commonwealth for COLA and Survivor Benefits	431,867	160,772
Pension Fund Appropriation	6,167,337	5,717,045
Sub Total	6,700,696	5,971,522
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	7,477	3,328
Investment Income Credited to the Military Service Fund	45	2
Sub Total	7,522	3,329
Expense Fund:		
Investment Income Credited to the Expense Fund	545,051	505,753
Sub Total	545,051	505,753
Pension Reserve Fund:		
Federal Grant Reimbursement	16,412	
Interest Not Refunded	734	4,518
Excess Investment Income	3,371,988	7,143,552
Sub Total	3,389,135	7,148,071
Total Receipts	$12,914,611	$15,803,449

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2005	2004
Annuity Savings Fund:		
Refunds to Members	$123,061	$195,816
Transfers to Other Systems	291,397	137,731
Sub Total	414,458	333,548
Annuity Reserve Fund:		
Annuities Paid	1,101,419	1,043,753
Sub Total	1,101,419	1,043,753
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	5,205,705	5,121,469
Survivorship Payments	253,734	224,828
Ordinary Disability Payments	203,619	187,183
Accidental Disability Payments	1,439,141	1,271,070
Accidental Death Payments	407,984	397,631
Section 101 Benefits	28,899	28,070
3 (8) (c) Reimbursements to Other Systems	119,183	131,660
State Reimbursable COLA's Paid	129,023	127,187
Sub Total	7,787,289	7,489,098
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	0	0
Expense Fund:		
Board Member Stipend	16,500	16,500
Salaries	94,349	89,841
Legal Expenses	14,360	12,297
Medical Expenses	77	0
Travel Expenses	606	848
Administrative Expenses	2,862	6,812
Furniture and Equipment	1,095	439
Management Fees	308,399	297,536
Custodial Fees	62,076	57,982
Consultant Fees	26,797	15,186
Service Contracts	17,296	8,312
Fiduciary Insurance	634	0
Sub Total	545,051	505,753
Total Disbursements	$9,848,217	$9,372,151

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31	
	2005	2004
Investment Income Received From:		
Cash	$50,307	$16,454
Short Term Investments	0	0
Fixed Income	1,203,944	1,073,606
Equities	146,301	199,120
Pooled or Mutual Funds	971,587	382,296
Commission Recapture	7,784	0
Total Investment Income	2,379,923	1,671,477
Plus:		
Realized Gains	1,426,065	1,848,452
Unrealized Gains	5,907,396	7,638,832
Interest Due and Accrued on Fixed Income Securities - Current Year	192,559	183,285
Sub Total	7,526,020	9,670,569
Less:		
Paid Accrued Interest on Fixed Income Securities	(215,320)	(133,566)
Realized Loss	(2,508,764)	(2,057,432)
Unrealized Loss	(2,711,964)	(968,433)
Interest Due and Accrued on Fixed Income Securities - Prior Year	(183,285)	(178,215)
Sub Total	(5,619,333)	(3,337,647)
Net Investment Income	4,286,610	8,004,399
Income Required:		
Annuity Savings Fund	111,954	96,698
Annuity Reserve Fund	257,572	258,393
Military Service Fund	45	2
Expense Fund	545,051	505,753
Total Income Required	914,622	860,846
Net Investment Income	4,286,610	8,004,399
Less: Total Income Required	914,622	860,846
Excess Income To The Pension Reserve Fund	$3,371,988	$7,143,552

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2005		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	$2,914,995	3.9%	100%
Short Term	0	0.0%	100%
Fixed Income	17,913,750	24.2%	40-80%
Equities	23,862,757	32.3%	50%
Pooled International Equity Funds	9,004,836	12.2%	10%
Pooled Global Fixed Income Funds	5,208,596	7.0%	10%
Pooled Real Estate Funds	0	0.0%	5%
Pooled Domestic Balanced Funds	15,038,628	20.3%	50%
Grand Total	$73,943,562	100.0%	

For the year ending December 31, 2005, the rate of return for the investments of the Beverly Retirement System was 6.33%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Beverly Retirement System averaged 6.92%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Beverly Retirement System was 10.28%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Beverly Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 31, 1989

(1) Real Estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and shall consist of real estate separate accounts, provided that:
(a) the Board does not participate in the selection of the separate account management and should the Board be required to participate in the selection of the separate account management, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and
(b) the separate account management retains authority in the decision making process, and
(c) should an investment in a separate account result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said account is prudent.
20.03 (1) Equity investments shall not exceed 40% of the total book value of the portfolio at the time of purchase including international equities which shall not exceed 5% of the total book value of the portfolio at the time of purchase.
20.04 (1) United States based corporations and equities of foreign corporations.
20.07 (5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.
20.80(e) Cash or cash equivalent investments may be made in the foreign currencies, however, foreign currency speculation is prohibited.

July 18, 1990
20.04(1) United States based corporations, equities of foreign corporations, bonds of foreign corporations, and fixed income Canadian securities, provided that:
(a) all such foreign bonds are denominated in U.S. currency and issued and traded in U.S. markets, and the total of such foreign bonds shall be considered part of the board's fixed income asset allocation and shall not exceed 5% of the total market value of the portfolio; and
(b) all such Canadian securities are denominated in U.S. currency and issued and traded in U.S. markets, and the total of all such securities shall be considered part of the board's fixed income asset allocation and shall not exceed 5% of the total market value of the portfolio.
20.04(6) American Depository Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United Stated, provided that the total of all such investments shall be considered part of the board's equity asset allocation and shall not exceed 5% of the total market value of the portfolio.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

December 12, 1991
16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:
(a) 1% of the value of the fund for the first $5 million; and
(b) 0.5% of the value of the fund in excess of $5 million.

February 6, 1992
16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

June 24, 1992
18.02(4) *Rate of Return*. A statement of the rate of return objective for the entire portfolio which shall be at least 8 ½%.
18.02(5) *Risk*. Total portfolio risk exposure should reasonably be centered in the midrange (25th to 75th percentile) of comparable Public Funds. Risk-adjusted returns are expected to consistently rank in the top half of comparable Public Funds.
20.03(1) (a) Domestic equities shall not exceed 50% of the total book value of the portfolio at the time of purchase.
(c) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.
20.07(1) The issuer of equity securities must have a publicly available operating record of at least five years, including past performance resulting from mergers, acquisitions, and spin-offs, however, 1% of the portfolio may be invested in equity securities of companies with less than a five year operating record.
20.07(8) Commingled or mutual funds may be used to achieve the desired degree of diversification and may include:
(a) PanAgora Asset Allocation Fund.
20.08(1)(b) Securities rated A-2 by Moody or P-2 by Standard and Poor's or better by a recognized credit rating service.

July 21, 1994
20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.
20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 12, 1995
20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the total portfolio valued at market.
20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

August 22, 1996
840 CMR 21:00:
Prohibited Investments:
(3) Futures Contracts other than as follows:
(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.
(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Beverly Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation.

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $611.28 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of $100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child, and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first $12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Beverly Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

November 27, 2000
Once a member joins the retirement system, they are eligible to purchase any prior employment they may have had with the City of Beverly as a seasonal, part-time, provisional or temporary worker. Employees will receive one (1) year of credit for every two (2) years worked, providing they worked at the position to be purchased continuously for at least fifteen hours per week. Employees who worked less than 15 hours per week at the position to be purchased are prorated fractionally according to the normal work week for their department.

November 22, 2002
The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). (Regulation available upon written request)

July 5, 2005
Members of the Beverly Retirement System shall receive creditable service in the following manner:
For a member in service who is employed in a full-time capacity while an employee of the City of Beverly, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
For a member in service who is employed in a part-time capacity through his/her entire career while an employee of the City of Beverly, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.
For a member in service who has been employed in both a full-time and part-time capacity while an employee of the City of Beverly, the member will receive full-time credit for full-time service, and prorated service for part-time service based on the full-time equivalency of 35 hours for the position.
For a member who is employed in a part-time capacity throughout his/her entire career while an employee of the City of Beverly, but who either purchases past refunded service, or who has transferred into the Beverly Retirement System service rendered in a full-time capacity, the member's part-time position shall be prorated based on the full-time equivalency of the position.
In the case of School Department or City employees whose full-time employment requires them to work on or about September 1 to on or about June 30 said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.
Any member who purchases past part-time service rendered shall have said service prorated based on 35 hours being considered a full week of service. In the case of an employee who has worked part-time his or her entire career, the purchase of past service rendered based on 20 hours being considered a full week of service.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Carol Augulewicz		
Appointed Member:	Raymond J. Stecker Jr.	Term Expires:	5/31/08
Elected Member:	Crystal Atherton	Term Expires:	9/7/06
Elected Member:	Clark Mitchell	Term Expires:	12/17/08
Appointed Member:	John F. Lane Jr.	Term Expires:	6/27/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	Employee Dishonesty
Ex-officio Member:	)	$500,000 Limit of Coverage
Elected Member:	)	ERISA Bond Crime Policy
Appointed Member:	)	Issued by National Grange Mutual
Staff Employee:	)	Insurance Company

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2006.

The actuarial liability for active members was	$54,316,408
The actuarial liability for retired and inactive members was	78,597,770
The total actuarial liability was	132,914,178
System assets as of that date were (actuarial value)	74,634,644
The unfunded actuarial liability was	$58,279,534
The ratio of system's assets to total actuarial liability was	56.2%
As of that date the total covered employee payroll was	$21,116,317

The normal cost for employees on that date was	8.4% of payroll
The normal cost for the employer was	6.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by Group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	$74,634,644	$132,914,178	$58,279,534	56.2%	$21,116,317	276.0%
1/1/2004	$66,992,538	$122,032,295	$55,039,757	54.9%	$19,748,275	278.7%
1/1/2002	$65,891,863	$110,368,515	$44,476,652	59.7%	$19,908,218	223.4%
1/1/2000	$59,367,879	$95,125,878	$35,757,999	62.4%	$19,330,257	185.0%

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	12	*	23	3	4	16	44	15	7	17
Ordinary Disability	2	*	1	1	0	0	2	1	1	0
Accidental Disability	2	*	6	0	1	1	1	0	1	2
Total Retirements	16	N/A	30	4	5	17	47	16	9	19
Total Retirees, Beneficiaries and Survivors	402	*	428	436	470	416	449	462	478	460
Total Active Members	479	437	489	510	609	650	574	557	574	590
Pension Payments										
Superannuation	$3,120,105	$3,470,866	$3,481,271	$3,582,898	$3,671,693	$3,738,932	$4,168,288	$4,930,789	$5,121,469	$5,205,705
Survivor/Beneficiary Payments	231,748	226,128	152,813	174,875	203,088	202,875	213,845	220,846	224,828	253,734
Ordinary Disability	138,809	184,032	198,058	182,798	181,788	167,155	168,386	179,907	187,183	203,619
Accidental Disability	947,309	953,494	1,030,672	1,126,563	1,192,449	1,226,231	1,264,537	1,278,660	1,271,070	1,439,141
Other	426,990	396,134	499,995	531,349	495,239	577,071	646,684	636,852	684,547	685,090
Total Payments for Year	$4,864,961	$5,230,654	$5,362,809	$5,598,483	$5,744,257	$5,912,264	$6,461,740	$7,247,054	$7,489,098	$7,787,289

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